

<b>REGENERATION, TRANSPORT AND CULTURE SCRUTINY PANEL</b>	<b>DATE</b> 9 December 2021	<b>ITEM NO:</b> 6
<b>TITLE</b> Woolwich Works Supplementary Report	<b>WARD (S)</b> Woolwich Riverside	
<b>CHIEF OFFICER</b> Director Regeneration, Enterprise & Skills	<b>CABINET MEMBER</b> Regeneration & Growth	
<b>DECISION CLASSIFICATION</b>  Non Key Exempt appendix	<b>IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING?</b>  Not applicable – the report is for noting only.	

1. **Decision required**

1.1 To note this supplementary report for the Woolwich Works project.

2. **Links to the Royal Greenwich high level objectives**

2.1 This report relates to the Council's agreed high level objectives as follows:

- A Healthier Greenwich
- A Great Place to Grow Up
- Economic Prosperity for All
- A Great Place to Be

3. **Purpose of Report and Executive Summary**

3.1 The Scrutiny Panel on 13 October 2021 were presented with a report for the Woolwich Works Project. The panel requested a supplementary report be provided on 9 December 2021 detailing:

- The breakdown of the costs involved.
- KPI and projections for jobs creation.
- Lessons learnt from this project which will be carried on into other capital-intensive projects.
- Return on investment.
- The value the investment brings to RBG.

#### 4. **Introduction and Background**

4.1 The purpose of this report is to provide a supplementary report on the Woolwich Works project in order to close out the questions raised at Scrutiny on 13 October 2021.

#### **Construction Project Budget and Costs**

4.2 The March 2017 Cabinet decision agreed a total project budget of almost £43m to cater for the works to renovate and convert the buildings. The budget was broken down as follows:

<b>Item (£m)</b>	<b>Base Cost</b>	<b>Inflation Risk</b>	<b>Client Contingency</b>	<b>Design Risk</b>	<b>Original Budget</b>
<b>Construction</b>	31.6	1.0	1.7	3.0	37.3
<b>Fees</b>	5.5				5.5
<b>Total</b>	37.1				42.8

4.3 The construction cost estimate included an inflation allowance of £1.7m, based on forecast to Autumn 2018.

4.4 An ambitious project of this magnitude and complexity contains many layers of risk and the council's capital strategy approved by Cabinet in February 2020, contained a corporate contingency to provide capacity within the overall investment programme for project development and risk. This was to align the capacities built into individual programmes within the council's wider capital programme.

4.5 With main works completing in April 2021, a further £1.2m allowance for inflation was required, leading to a revised budget of £44.0m.

4.6 The extension of the programme was driven by design development, value engineering and procurement delays and longer construction period when viewed against the baseline assumptions in March 2017.

4.7 Unforeseen costs arising during the project, as noted in the 13 October report, generated a further £1.6m of net cost pressure on the overall budget.

4.8 The additional inflation and net cost pressures are drawn down from the corporate contingency - therefore the final cost of the scheme is contained within approved budget envelopes.

4.9 Final Construction Project Cost:

Item (£m)	Original Budget	Inflation	Revised Budget	Discovery Pressures	Reductions / Savings	Outturn
<b>Construction*</b>	37.3	1.2	38.5	1.9		40.4
<b>Fees</b>	5.5		5.5		(0.3)	5.2
<b>Total</b>	42.8		44.0			45.6

\* excl. COVID

4.10 The total of all the renovation, repair, refurbishment, decoration, fixtures and fitting costs met by RBG was £40.4m

4.11 The total of the one-off costs of legal, financial, project management and any other consultancy work for the buildings and estate was £5.2m.

## 5. **Historical Costs**

5.1 The acquisition of the long leases from Berkeley Homes was dealt with via previous decisions approved by Members.

- Acquisition of the leases for B17,18, 40 & 41 was approved by Cabinet at its meeting on 16 April 2014.
- Acquisition of the lease for B19 was approved by the Cabinet Member for Culture, Creative Industries and Community Wellbeing under delegated powers in December 2016.

5.2 The acquisition costs were funded via the Councils Capital Programme.

5.3 During the operational phase of the assets, if either tenant were to fail during the term of the lease, the Council has the right to re-enter the properties and take back control. At this point the lease with the tenant would fall away and the Council would then have the ability to use the buildings. The Council would also take responsibility for holding costs of the buildings, which would include utility, security, maintenance, insurance and estate service charges.

## 6. **Enabling Costs**

6.1 One-off start-up grant from the Council's Capital Programme was provided to the Woolwich Creative District Trust to resource pre-opening staffing and operating activities. The £0.9m of funding aligned with the pre-Covid works programme and Trust's business plan, which was subject to review by external advisors. Prolongation of the works programme, as a result of the Covid-19 outbreak, placed pressure on the Trust's initial financial model as this extended the period between the Trust being established and commencement of income generating activities. This cost pressure has been managed within the Trust through deferred recruitment into the proposed

staffing establishment and funding secured from the Arts Council & DCMS' Recovery Fund.

- 6.2 The total costs of consultancy on the Creative Quarter (including concept, business planning, design, negotiations, set up of Woolwich CDT or WW organisation, recruitment etc) between 2014 and present was £0.6m. These were funded from one-off resources.
- 6.3 Responsive and cyclical maintenance has been undertaken on the assets. This covers critical building systems (fire and security alarms) and reactive mechanical and fabric works. The value of works undertaken is £0.1m and has been fully funded from one-off resources.
- 6.4 Prior to the commencement of works, and following a risk assessment by the Councils insurers, a security contract was put in place at a cost of £0.3m. The security requirement was driven by the significance of the buildings, configuration and historical use. Security during the refurbishment period was undertaken as part of the contract with Mace. These were funded from one-off resources.
- 6.5 Gross utility costs incurred since the 2017 Cabinet decision amount to £0.4m. This includes gas, electricity and water charges relating to the historic occupation of the buildings which predates the project initiation. These charges were funded from one-off and base revenue resources and tenant service charges.
- 6.6 External costs totalling £0.1m for publicity, promotion, advertising etc for the project and the set-up of the charity have been met from the project budget. Other internal costs have been met from existing RBG budgets together with the management time spent on the project by RBG officers, which has not been recorded.
- 6.7 The Royal Greenwich Heritage Trust (RGHT) was based in part of B4I therefore needed to be relocated in order to undertake the works to the building. An existing unit owned by RBG was identified at Anchorage Point in Charlton. As the building was owned by RBG there were no acquisition costs and RGHT have entered into a lease at peppercorn until May 2025. The total costs of the construction works, fittings, renovations and specialist fixtures to create the space for the archives, combined with one-off costs of legal, financial, project management and any other consultancy work was £0.5m. This was funded from the Capital Programme.

## 7. **Post Handover Costs**

- 7.1 The buildings are insured under the Councils insurance policy with insurance premiums recoverable via the leases with the Trust and Punchdrunk. Royal Greenwich is able to pass on 100% of its insurance costs for the buildings occupied by the Trust over the term of the lease, whilst approximately 26% of the Council's premium is recoverable from Punchdrunk. The balance of any cost will be contained within the corporate insurance budget, and revenue generated through the lease of the assets.

- 7.2 All ongoing planned and responsive maintenance for building 40 & 41 rests with the Trust, save for lifecycle replacement of the external doors, windows and roofs. However, the work undertaken to the buildings means that these items are unlikely to need replacement during the 30 year duration of the lease.
- 7.3 Punchdrunk are responsible for maintenance and internal redecoration and repair on B17,18 & 19 limited by a schedule of condition on entry. RBG retains responsibility for maintenance of the main structure of the building. Any work that is required will be funded by existing budget for property maintenance.
- 7.4 Under the terms of the Council's head leases the Council is required to pay the estate service charge levied by Berkeley Homes for the maintenance of the public realm on the Royal Arsenal. This charge will be passed on to each tenant by the Council. The lease with the Trust for B40 & 41 allows for the Council to recover this cost from the Trust. This is also true in relation to the lease with Punchdrunk for B17, 18 & 19, however this arrangement is subject to a cap of £150,000 recovery of costs over the life of the lease, which reflects the shorter term (6yrs) of this lease when compared to the lease with the Trust (30 yrs). The forecast estate service charge liability retained by Royal Greenwich is approx. £27,000 pa and will be offset against rental income from the lease of the assets.

## 8. **COVID Costs**

- 8.1 When the pandemic hit, the Council implemented a change to the construction contract in line with central government guidance.
- 8.2 The government was keen to ensure that construction continued to operate through the pandemic as it recognised the critical role this sector plays in enabling the recovery from the pandemic and the large employment in the industry. The contract changes enabled the contractor to claim for costs associated with impacts caused by the pandemic.
- 8.3 The primary impacts on the project were additional activities on site to limit the spread of the virus, reduced workforce and rearranged works. These impacts extended the programme and added cost to the scheme.
- 8.4 The total cost of the pandemic on the works was £2.9m with £0.1m of additional fees for professional services due to the extended programme.
- 8.5 The costs associated with COVID have been funded by government grant therefore do not create a pressure on the capital programme.

## 9. **Social and Economic Return on Investment**

- 9.1 The vision for Woolwich Works (WW) seeks to build a creative hub that breaks down the traditional barriers between what is seen as that traditional model for

cultural activities and mainstream “mass culture”. A key objective is to ensure that economic and social value is delivered locally.

- 9.2 Using standard methodology developed for use by the Arts Council, the economic impact of the Royal Arsenal has been estimated to be £30 million in the initial five years. The recent Woolwich Destination Management Plan estimated that the economic benefit of WW and visitors to Woolwich would be £44.6 million in the first 2 years of operation.
- 9.3 In spite of just having been open for just a few months, the Trust is already delivering a number of real benefits for the local community and economy as follows.

#### Cultural Benefits

- 9.4 Up until 17 November, the Trust has presented 37 public performances and events against a target of 60 before 31 March 2022. The Trust will significantly exceed the target for the current period, despite the site opening later than anticipated when the target was agreed with the Council. A number of these performances have been presented free of charge, whilst Greenwich One Card holders and borough residents receive a standing discount on tickets purchased from Woolwich Works. During the opening period, residents have additionally been offered tickets for major shows at a special £5 rate.

#### Employment, Training and Work-Based Learning

- 9.5 The Trust has been successful in recruiting through GLLaB as previously reported. As of the previous Scrutiny Panel, 64 borough residents had been offered regular employment by the Trust to date, all at London Living Wage or higher, 17 of which on permanent full or part time contracts. The range of opportunities to which Borough residents have been appointed include programme management and technical positions, bar and catering, housekeeping and visitor services roles. Level 1 staff recruited through GLLaB have already received significant upskilling and development as part of the Trust’s commitment to creating opportunities with low barriers to entry and meaningful progression routes.
- 9.6 The Trust developed and offered its first apprenticeship in partnership with GLLaB and LSEC but the successful candidate decided not to take up the position. It will be re-advertised, together with a second apprenticeship, early in the new year.
- 9.7 The Trust has now opened recruitment for volunteering opportunities with the programme expected to launch in the forthcoming quarter. In parallel, it is developing opportunities for work placements and traineeships with partners, including the Council, which are expected to come online in early 2022.

#### Education and Community Programme

- 9.8 Three schools in the Borough benefitted from free schools' performances of Girls, a theatre piece presented by The Pappy Show to coincide with the International Day of the Girl. Plumcroft, Holy Catholic, Fosdene, Eglington, Haimo, Newhaven and Kidbrooke Park schools have taken part in workshops presented by Protein Dance, in partnership with the Trust, alongside the forthcoming performances of The Little Prince which are programmed for early December. The Trust has offered 464 free tickets for performances of The Little Prince to 22 primary schools across the Borough in addition to parents of home-educated children.
- 9.9 The Trust established a community choir for its opening in September in which approximately 40 borough residents actively participated. Many members of the group found the experience so beneficial that they asked for the choir to continue. As a result, the Trust established a branch of Some Voices, one of London's leading contemporary choirs, at Woolwich Works. The group rehearses weekly and the Trust offers a bursary of up to 80% to Borough residents who are on universal credit or otherwise in need of financial support.
- 9.10 Work continues to develop longer-term education and community programmes in partnership with the resident artistic companies, which will begin to be delivered in earnest in 2022.

#### Partnership Working

- 9.11 The Trust supported The Collective Makers to present an exhibition of work by black visual artists throughout October; partnered with GDIF to present performances of Laika's Balsam; and is currently partnering with Woolwich's Caribbean Social Forum to present an event. The Trust also supported Woolwich Contemporary Print Fair in presenting the Young London Print Prize, in which many local schools participated. It was also proud to host the Council's Connecting Communities project which engaged communities across the Borough in dance. After just two months of operations, the Trust has already fulfilled the target it agreed with the Council in respect of partnership working and will continue to build and develop such initiatives to exceed it in the period.

## Economic Benefits

- 9.12 The Trust has, in the current period, secured over £400,000 of external funding to support Woolwich Works' facilities and projects against an annual target of £200,000 agreed with the Council.

## Monitoring Social and Economic Return on Investment

- 9.13 The vision described above is enshrined in a schedule of key performance indicators (KPIs) agreed between the council and the trust, and formalised in the lease agreement. The KPI outcomes are reported on annually and are evaluated by a points process that measures progress against each indicator. The schedule of KPIs is attached to this report as exempt Appendix B.

## **10. Lessons Learned**

- 10.1 The original budget included a client contingency of 5%. With hindsight this was low given a project of this nature, which involves refurbishment of historic and listed buildings. For future projects the level of client contingency should reflect the nature of the project and schemes like Woolwich Works should include a higher level of contingency. A typical contingency for projects like this would need to be between 20% to 30% and the decision report is recommended to include a decision point that only allows the use of this contingency in consultation with the Cabinet Member for Finance and Resources.
- 10.2 It is important to note that in the early stages of a project when the investment decision is being taken it is almost always the case that the project brief is not mature, the design has not been developed and detailed investigations into the existing buildings have not been undertaken. Therefore, assumptions have to be made in order to formulate the budget request and project timeline. It is inevitable that these assumptions will change during the life of the project with resulting cost, programme and budget impacts. Any early estimate of programme cost, and schedule should be seen as provisional, should clearly recognise limitations and uncertainties, and be used only in an indicative fashion to guide long-term planning until a detailed design supported by tendered pricing is available. Future reports should clearly reflect these risks within the body of the document. These risks can be mitigated to some extent through early engagement of a contractor. The Early Contractor Involvement (ECI) enables the Council to bring in the skills and expertise to analyse the project from a construction perspective and undertake any early investigations and surveys. These findings can then inform the cost and budget strategy for the project together with programme, delivery and procurement approach.
- 10.3 A potential mitigation of the risks identified in para 10.2. is to set out possible ranges of both cost and timeline in reports that are presented in the inception stage of a project. This practice is beginning to become more widespread in Government and should be considered at the Council for future major projects like Woolwich Works.

10.4 In line with best practice, at the end of each project a lessons learned review is undertaken and these are captured in a closure report which then fed into new projects. The lessons learned described above have already been adopted on new projects that are underway.

11. **Conclusion**

11.1 The council has made a significant investment for the benefit of both residents and visitors today, as well as generations to come, with the value of the return measured over the coming decades.

11.2 The quality of the works and dramatic improvements to the buildings provides a perfect platform to facilitate a bright future for the Woolwich Works site.

12. **Available Options**

Not applicable as this is an update report.

13. **Preferred Option**

Not applicable as this is an update report.

14. **Reasons for Recommendations**

Not applicable as this is an update report.

15. **Consultation Results**

Not applicable as this is an update report.

16. **Cross-Cutting Issues and Implications**

Issue	Implications	Sign-off
<b>Legal</b> including Human Rights Act	The purpose of this report is for the Panel to receive an update on the progress of the Woolwich Works project. Given that the report is for information only and there is no formal decision, there are no legal implications arising from the report.	Diana Barrett Assistant Head of Legal – Regeneration and Property 26.11.2021
<b>Finance</b> and other resources including procurement implications	The report provides a further update on the progress of the Woolwich Works project.  No financial implications arise as a result of this report.	Michael Horbatchewskyj Accountancy Business Change Manager (P&I) 18/11/21

Equalities	<p>The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act.</p> <p>In line with the Councils' Equality and Equity Charter, the project has supported creating a fairer borough through promoting inclusion, participation and equal access. Some examples are:</p> <ul style="list-style-type: none"> <li>• The buildings have been designed to be fully accessible and include a Changing Places facility.</li> <li>• The KPI's built into the leases have been written to incentivise the operators to make the facilities accessible for use by residents of the Borough.</li> </ul>	Daniel Stanesby, Assistant Director 18/11/21
Climate change	The works undertaken to the buildings improves and enhances their environmental performance in line with the draft Greenwich Carbon Neutral Plan agreed by Cabinet on 18 November 2020	Daniel Stanesby, Assistant Director 18/11/21

## 17. **Report Appendices**

17.1 The following documents are to be published with and form part of the report:

17.2 Appendix A - Pictures of Finished Building

17.3 Exempt Appendix B – Schedule of KPI's

## 18. **Background Papers**

18.1 Cabinet Decision March 2017 - Woolwich Creative District

18.2 Cabinet Decision November 2017 - Woolwich Creative District - the creation of a new trust, co-operative or Community Interest Company (CIC) to manage the site

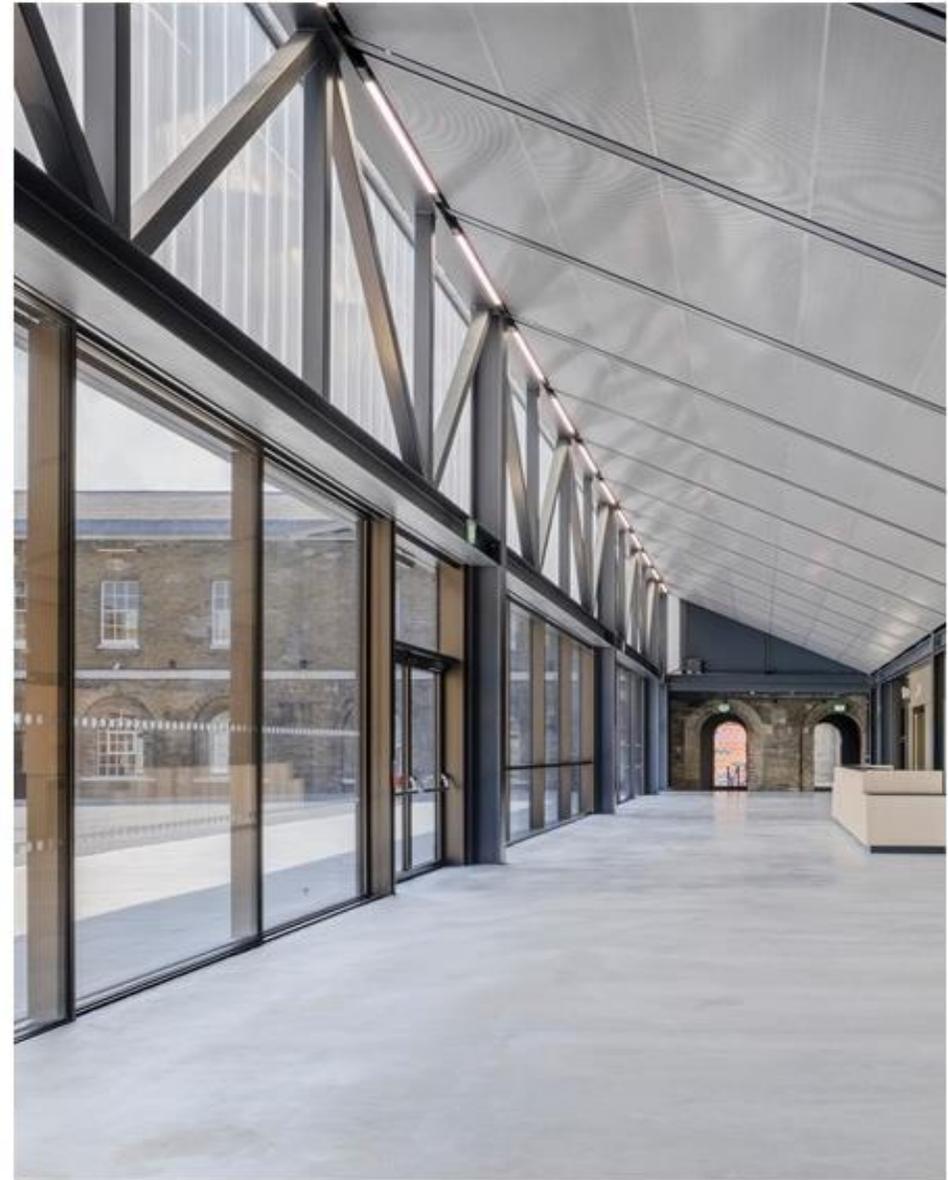
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Appendix A - Pictures of Finished Building



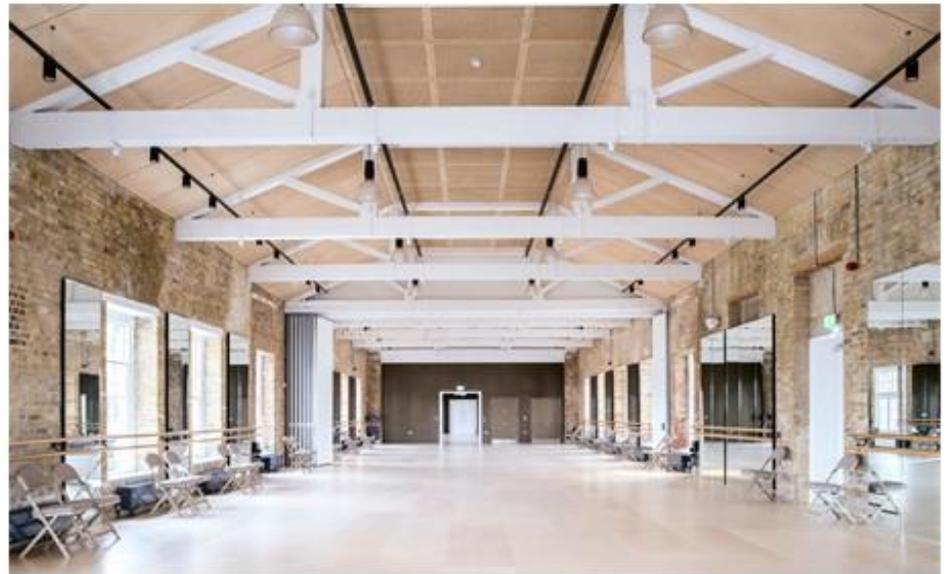
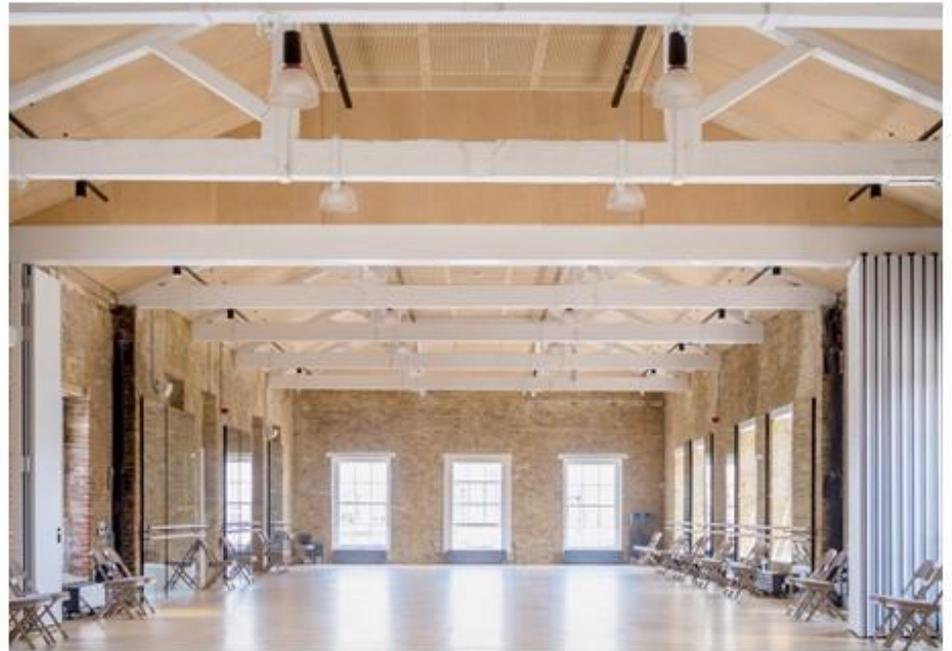
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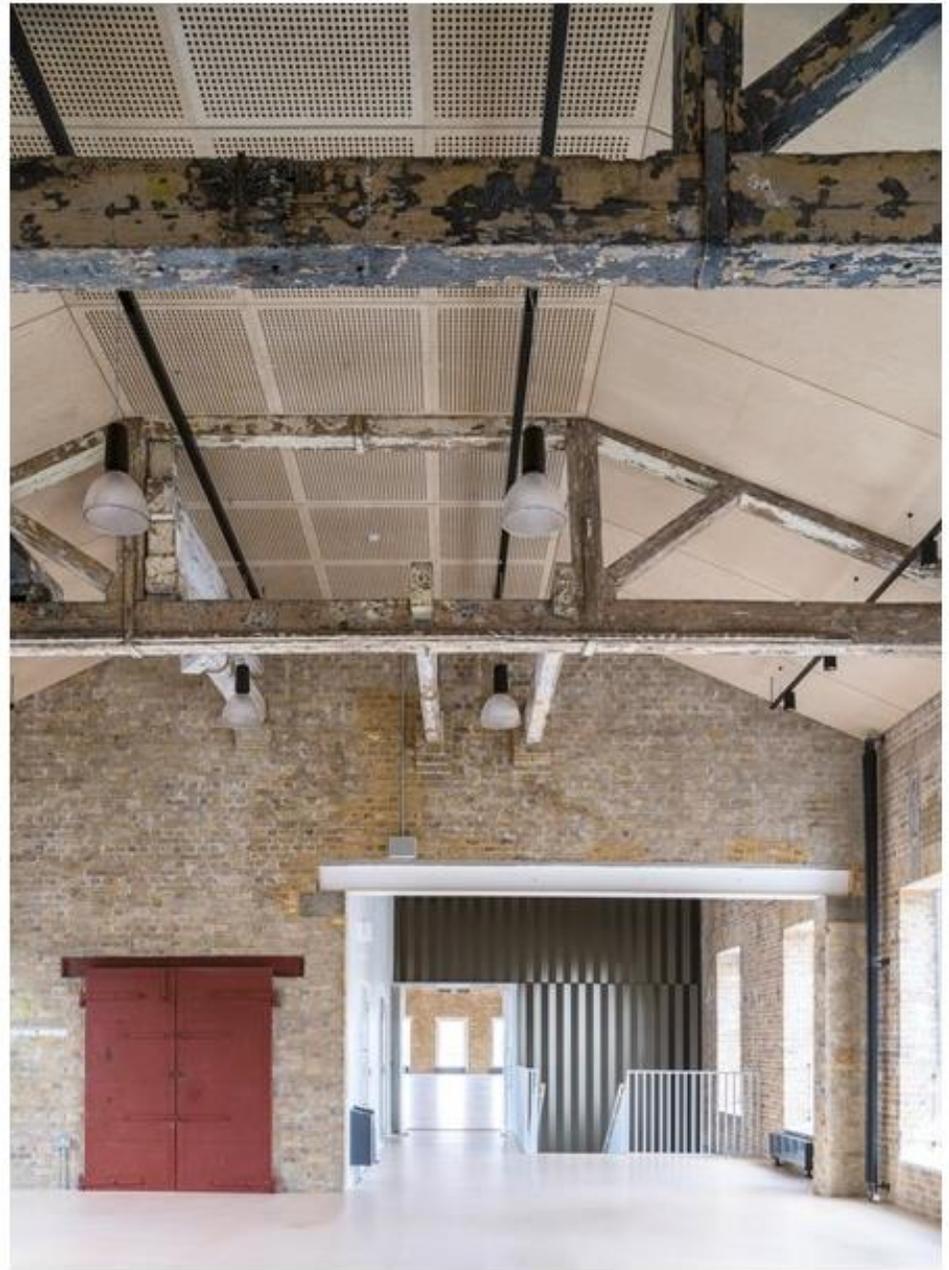
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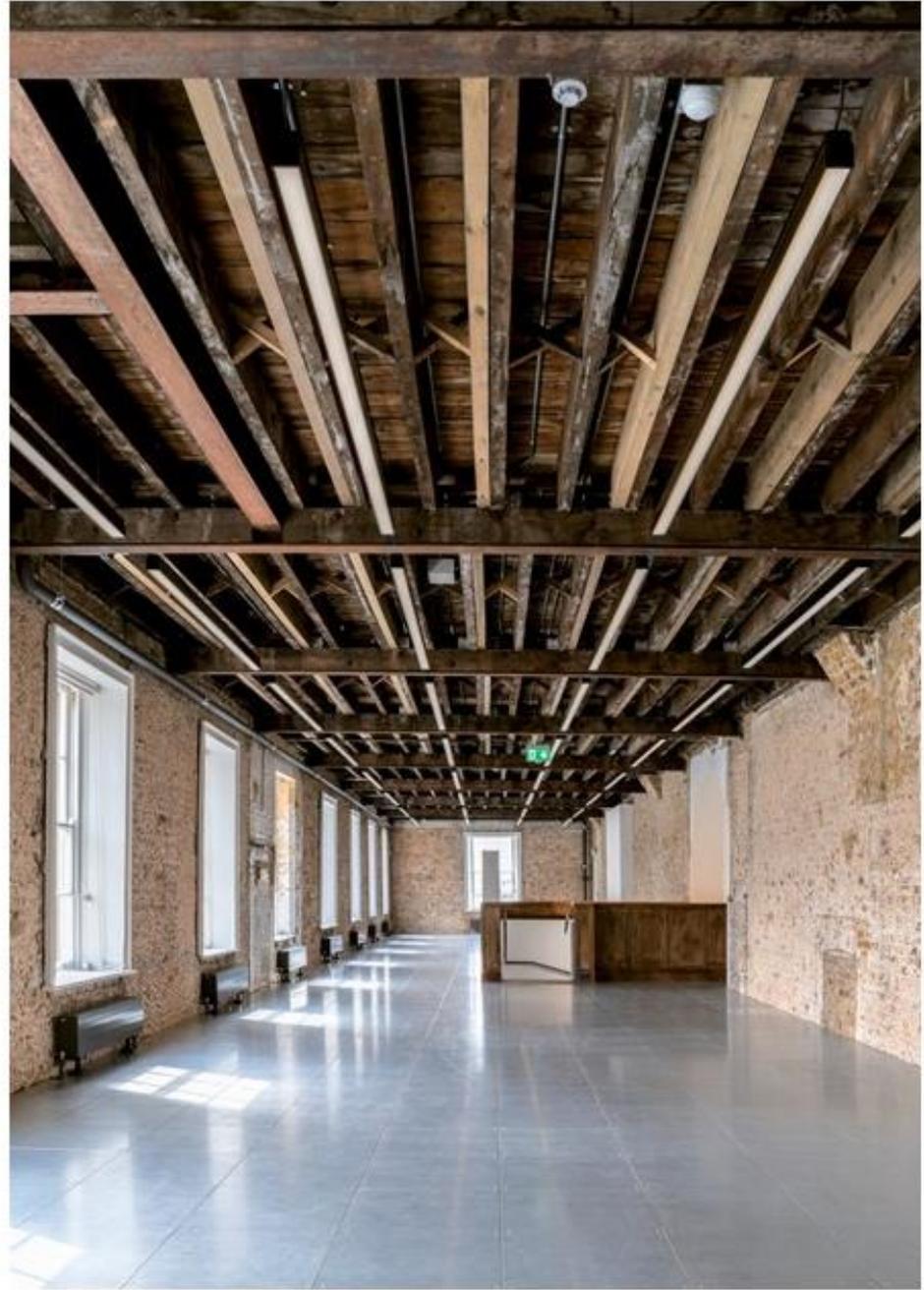
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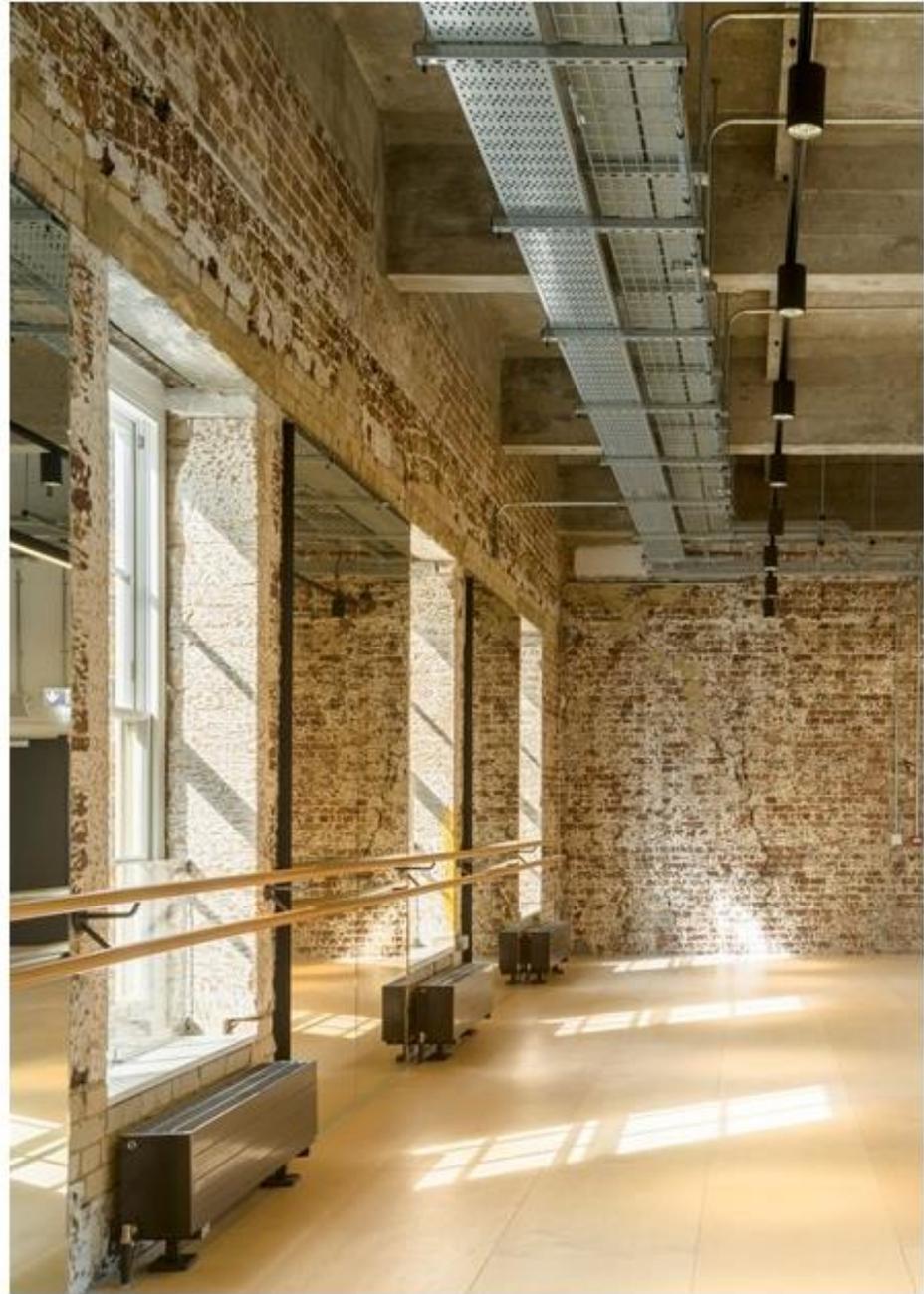
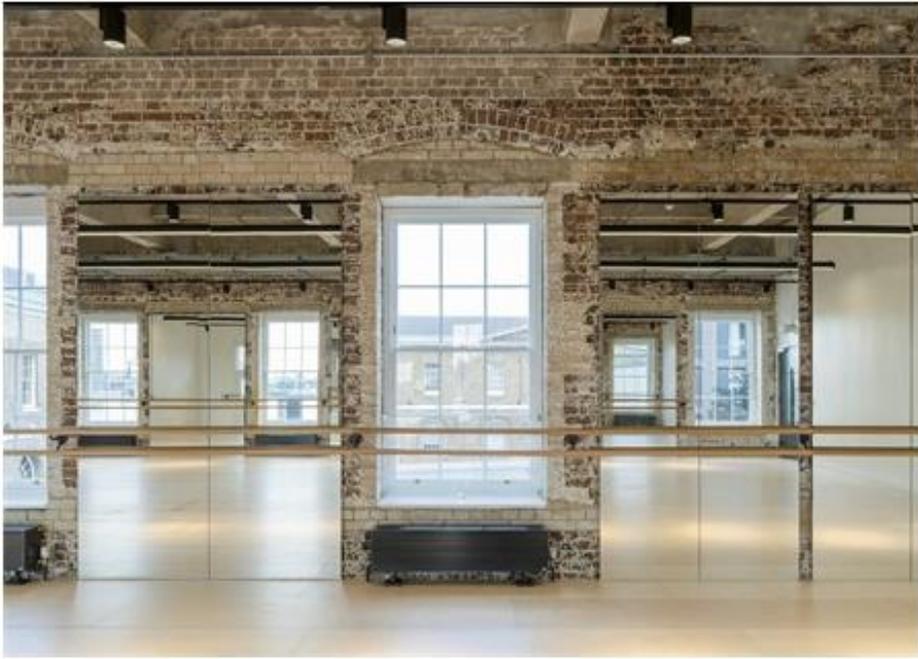
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